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THE GENERALIZED SYSTEM OF PREFERENCES AND JAPAN'S IMPORTS* FROM DEVELOPING COUNTRIES

IPPEI YAMAZAWA

I. *Introduction*

This study aims to assess the effects of the Japanese scheme of generalized preferences on its imports from beneficiary developing countries. In a previous study[1] I assessed its effects on the Japanese economy and industry. The effect on imports from developing countries is the other side of the issue and the same methodology is followed in this study. However, this study focuses on differential effects on individual developing countries of *a priori* limitations of benefits under the scheme.

As regards the methodology of assessment, I rely mainly on the so-called "market share approach" instead of the popular "elasticity approach." The elasticity approach is too naive for a detailed assessment of a country's scheme. It takes only price effects into account, but not the complicated implementation of the scheme, a major factor limiting its utilization. The market share approach is based on the careful interpretation of shares of beneficiary country products in the import market and on utilization of benefits under the scheme. This approach cannot distinguish the effects of the scheme from those of other major economic factors affecting exports from developing countries such as exchange rates, industrial development and changes in cost conditions but, by combining it with macro-economic observations of exporting and importing countries and individual sector studies, it can provide a probable effect of the tariff preference, which seems to be more appealing to policy makers than a mechanical calculation of the elasticity approach.[2]

The GSP schemes of developed countries differ from one to another, and this should be taken into account in the assessment of their effects. For example, under the United States scheme characterized by "competitive need exclusions," the application of the GSP preferential treatment to the import of a particular commodity from a beneficiary country is either 100 per cent or 0, depending on whether or not that commodity is included or excluded from

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[1] Ippei Yamazawa, *Impact of the Generalized Scheme of Preference on the Japanese Economy and Industries*, RUEE Working Paper No. 85-23, Hitotsubashi University, October 1985.

[2] Elasticity and market share approaches are compared in detail in Axel Borrmann *et al.*, *The Significance of the EEC's Generalized System of Preferences*, Hamburg, Verlag Weltarchiv GmbH, 1985.

the preference, while under the Japanese scheme having "global ceilings and maximum country amounts" the application varies between 100 per cent and 0, reflecting the restrictive administration of those limitations. The *a priori* limitation would have a more significant effect under the United States scheme than under the Japanese one, but the Japanese scheme allows for a more flexible introduction of the graduation concept into the GSP. Data requirements therefore differ in the assessment of the effect of the two schemes.[3]

The next section gives a more detailed explanation of the methodology and data used in this study as well as a brief description of the Japanese scheme. The third section analyses Japanese imports from individual developing countries under its GSP scheme and the fourth section assesses the differential effects of the global ceiling and maximum country amounts on individual beneficiary countries. This study will be concluded with recommendations for possible improvement of the Japanese scheme.

II. *Methodology and Data*

Theoretical effects of GSP

The GSP was designed to promote industrial goods exports from developing countries to developed countries by exempting them from import duties in these markets, the tariff exemption provides developing countries' products with an advantage in their competition with developed country products and can be regarded as a form of economic aid.

What is the impact of Japan's granting of tariff preferences on imports from developing countries? Firstly, it is expected that the domestic selling price of a developing country's product will decline by the degree of exemption of import duty (GSP margin) so that its sale will increase in the Japanese doestic market through the following three ways: (1) substitution for domestic products with unchanged prices (decrease in domestic production); (b) substitution for products imported from other developed countries; and (c) increase in domestic consumption from lower prices and resulting increases in real income. The sum of (a) and (c) are defined as the trade creation effect and (b) as the trade diversion effect of the GSP. The three combined make up the total increase of exports from developing countries under the GSP.

Secondly, all of the GSP margin may not go to the decrease in the domestic sale price, but may result in raising the export price of developing country products. Thirdly, some of the GSP margin may go to Japanese importers. Although the second case may not increase the quantity of developing country exports, a part of the tariff revenue will be transferred to developing countries, thereby constituting a form of grant aid to developing countries. In the third case, the domestic sale price is not reduced, nor is the developing country's export price increased but this will give importers incentive to switch their supply source to

[3] MacPhee also adopted the market share approach and evaluated the effect of full suspension of a country from the United States GSP on a particular product. On the other hand, the present study of the Japanese scheme will be focused on how much the GSP application is affected by the administration of global ceiling quota and maximum country amounts and how the individual country share is affected by it. Information on application ratios in contrast to utilization ratios is therefore more germane in the Japanese study. See C. R. MacPhee, *Effects of Competitive Need Exclusions and Redesignations under the United States Scheme of Generalized Preferences*, UNCTAD/ST/MD/29, February 1986.

developing countries, thereby diverting trade, or to substitute developing country products for domestic products, thereby creating trade.

Before the start of GSP in the early 1970s, several attempts were made to predict the extent of its trade creation and diversion effects by assuming mainly that the price of developing countries' exports would decline (the first case mentioned above). The trade creation effect was estimated by multiplying import-demand elasticity by the GSP margin (usually the tariff rate on the product concerned, assuming 100 per cent tariff exemption), while the trade diversion effect was estimated by multiplying elasticity of substitution between the developing country product and that of the developed country by the GSP margin. This may be called an ex-ante evaluation of the effect of the GSP based on the elasticity approach.[4]

Complicated implementation

The Japanese GSP is in reality implemented in a more complicated manner than is assumed in the ex-ante evaluation mentioned above. Fifty-nine agricultural products (CCCN chapters 1–24) are listed as eligible for preferential treatment and their tariffs are reduced by 20 to 100 per cent. GSP tariffs are applied to the imports of these products without limitations except in the case of disruptive imports where import can be halted under the escape clause. The escape clause, however, has never been employed.[5]

For industrial products (CCCN chapters 25–99), imports from developing countries are, in principle, exempted from tariffs within certain ceiling quotas. However, 10 product groups (in terms of CCCN 4-digit heading) are excluded from GSP eligibility because of possible severe competition with domestic products. Only a 50 per cent tariff exemption is given to another 57 selected products. Ceiling quotas were first set at the total value of imports from all beneficiaries in 1968 (basic quota) plus 10 per cent of the value of imports from non-beneficiaries two years prior to the fiscal year for which the ceiling is set (supplementary quota), the latter being adjusted every year. The reference year for the basic quota has been changed to the year 1982.

GSP ceilings are administered in three different ways according to the degree of possible competition with domestic producers. For product groups with the severest possible competition, individual importers are allocated quotas in the beginning of the fiscal year (on 1 April) so that the sum of their imports would in no case exceed the ceiling (*prior allotment system*). For less sensitive product groups, a *daily control system* is used. Under this accumulated sum of imports exceeds the ceiling for the fiscal year (during which the excess is discovered from the daily statistics and the suspension is announced). This means that the total GSP import can exceed the ceiling for two days. The least sensitive product groups are under a *monthly control system*, whereby the product is suspended from GSP treatment (from the first of the month) two months after the accumulated sum of imports exceeds the ceiling.

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[4] The elasticity approach was typically adopted in the following studies: W. Beckerman, "Effects of Trade Reduction on Developing Countries, Export of Manufactures to Developed Countries," 1963; B. Balassa, "Impact of the Industrial Countries' Tariff Structures on Their Imports of Manufactures from Less-Developed Areas," 1967; and K. Kojima, "Tariff Preference for Less-Developed Countries: Review of the Debates and Japan's Stance" (in Japanese), *Tariff Study Monthly*, Ministry of Finance of Japan, Vol. 20, No. 3, 1967.

[5] The problem here is the restricted coverage of agricultural and marine products under the Japanese GSP. See I. Yamazawa, "*Impact . . .*" *op. cit.* for further detail. However, the present study focuses on industrial products which have been major targets for GSP in the UNCTAD discussion.

When the import of a product group from one beneficiary country exceeds a half of its global ceiling, GSP eligibility is suspended for the import of that product from that country even if total imports do not exceed the global ceiling (*maximum country amount*). On the other hand, the flexibility measure introduced since June 1973 allows unlimited GSP eligibility for products with less competition with domestic producers. Thus, the suspension of GSP eligibility would not be employed even after the total imports exceeds the global ceiling or after a beneficiary's export exceeds the maximum country amount. Flexibility of the global ceiling and of maximum country amount restriction were introduced for 112 and 137 product groups respectively.[6]

Table 1 shows changes in GSP administration since the start of the scheme. GSP quotas were expanded greatly in 1977, 1981, and 1984, in addition to regular annual increases. By 1985, the exclusion of product groups from the scheme rose to 20 and the number of selected products enjoying only a 50 per cent tariff reduction was reduced to 41. Flexibility of ceiling administration applied to 112 product groups but the product groups subject to prior allotment increased to 18.

One characteristic of the Japanese scheme is that there is no differentiated treatment among developing countries except for the special treatment (duty-free entry and no ceiling restriction) accorded to the least developed countries.[7] Ceilings and maximum amounts are administered on a first-come-first-served basis. One can thus expect the same utilization ratio of GSP between competing developing countries in the Japanese market unless they were differentiated otherwise. On the other hand, if a developing country's exports reach the maximum country amount, the GSP eligibility will be suspended for that country and any further increase in imports from the same country will be without the GSP benefit and the country's utilization ratio will decrease in comparison with its rival competitors.

Ex-post appraisal of the market share approach

With such a complicated implementation of the scheme, it is almost impossible to assess its effects by the ex-ante evaluation formula mentioned earlier. Its effects may be better assessed by examining the actual import record for the past ten years; market shares of individual developing countries and their utilization of the scheme's benefits for individual product groups classified by industry characteristics, differences in GSP margins and differences in ceiling administration. The imports from developing countries have, of course, been affected in various ways by factors other than the GSP treatment such as (i) changes in international competitiveness, (ii) non-price factors such as stability of supply and product quality of exports from developing countries, and (iii) such macro-economic factors as changes in exchage rates and aggregate demand.

It is difficult to distinguish the effects of the scheme from those of real factors when both the GSP treatment and real factors change at the same time. For example, the scheme was implemented in a restrictive way for products whose supply capacity increased greatly. Therefore, the test of significance cannot be applied to differences in market share changes

[6] For further details of the Japanese Scheme, see the Ministry of Foreign Affairs of Japan, *Japan's Generalized System of Preferences*, 1985.

[7] Another differential treatment is the application of rules of cumulative origin to the imports from ASEAN. See Minitry of Foreign Affairs of Japan, "*Japan's . . .*" *op. cit.*

TABLE 1. JAPAN'S ADMINISTRATION OF THE GSP: 1971–1985
(unit: number of products)

Fiscal year	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
1. Setting of ceiling quotas						(1. 1975 base ····· 1977 base ·····→ 1. 50% increase:									
Basic quotas	····· fixed at 1968 base ·····→					(2. 1968 base ×1.5 ·····→ 2. 30% increase:									
						(3. 1968 base ·····→ 3. 10% increase:									
Supplementary quotas	1968 base	1970 base	1971 base	1972 base	1973 base	1974 base	1975 base	1976 base	1977 base	1978 base	1979 base	1980 base	1981 base	1982 base	1983 base
2. Flexible administration of															
Global quota			110	116	118	118	108	101	105	106	106	112	110	110	112
Maximum country amounts (1/2 of quota) [a]			85	124	122	123	121	122	123	121	125	131	132	134	132
3. Selected products	57	57	51	48	47	47	46	48	48	48	41	41	41	41	41
4. Administration of ceilings															
Total number [b]	214	206	189	182	177	178	189	189	190	193	193	194	196	201	205
Daily control	95	73	63	46	41	41	42	40	41	45	46	44	41	41	46
Monthly control	108	122	115	125	125	126	135	135	135	132	132	134	137	141	141
Prior allotment	11	11	11	11	11	11	12	14	14	16	15	16	18	19	18
5. Beneficiary countries / territories	96	106	108	110	111	115	117	116	116	17	118	118	122	122	122
		(19)	(29)	(28)	(27)	(25)	(24)	(25)	(29)	(29)	(29)	(30)	(34)	(34)	(34)
6. Agricultural and marine products	59	68	69	72	76	76	76	75	75	75	75	75	75	75	75
7. Exclusion from the GSP	10	10	10	10	10	10	10	15	15	15	20	20	20	20	21

Source: Compiled from Ministry of Finance, Japan, *Tariff Weekly*, individual issues.

[a] Decreased to a third of global ceiling quota since FY 1984, keeping individual absolute amounts unchanged by increasing global quota 50 percent on average.

[b] Consecutive number through all independent tariff items and sub-items in the Announcement for GSP.

between two periods because real factors change differently. The elasticity approach provides specific estimates of trade creation and diversion effects of the preference but it is seldom explained in numerous studies how the elasticity approach takes into account real factor changes in import market. Furthermore, the elasticity approach is often conducted in broadly aggregated product groups so that it is impossible to take into account differential administration of ceiling quotas. For this reason, an attempt is made in this study to assess the effect of the GSP scheme on the basis of the market share approach under the methodological constraints imposed by the interaction between the GSP treatment and real factors. Despite this shortcoming, meaningful conclusions will be arrived at by utilizing macro-economic and sectoral case studies.[8]

Basic data on Japan's GSP imports

The following data base was produced on the basis of MOF (The Ministry of Finance) data of the Japanese GSP scheme. It covers three years (1976, 1983, and 1985), a large part of mining and manufacturing products (205 product groups), and 15 selected beneficiaries. The year 1976 was a normal year after Japan recovered from the first oil shock and is set as the base year while 1983 and 1985 represent the recent stage of the expansion of GSP imports and the comparison with the last two years measures the impact of a major change in ceiling quota in the Japanese scheme of 1984.

Both general and GSP import by country and product groups are recorded in MOF's *Japan's Foreign Trade Statistics Monthly*. The present study is conducted on the MOF data base with both GSP and general imports (values) of Japan of the 205 product groups from 17 sources (15 sample countries plus all beneficiaries and world total) for the three fiscal-year periods (1976, 1983, 1985). Industry characteristics and the GSP administration are input in the form of a characteristic code attached to individual product groups.

The 205 product groups represent individual preference tariff items of industrial products in the Japanese scheme of 1985. Two-hundred and five (205) is based on the number of product groupings according to which the global ceiling and administration of the Japanese GSP for the FY 1985 were announced in the MOF, Customs Bureau's *Tariff Weekly*, at the beginning of the fiscal year. Total imports from all beneficiary countries and the data of suspension of GSP due to global ceiling and/or maximum country amount are also reported in early May issues of the *Tariff Weekly*. Two-hundred and five (205) is the consecutive number through 190 tariff items and their sub-items in the announcement relating to GSP mentioned above, other than items excluded from the GSP eligibility since 1976. Therefore, the 205 products grouping provides a ready-made unit of measure for the effects of GSP.

However, the product grouping was altered between 1976 and 1985, the 1976 scheme had 195 product groups, and that of 1984 had 201. In addition to the six product groups excluded from the scheme, 53 other product groups were rearranged and disaggregated in that period. The six exceptions have been excluded from the data base but for the 53

[8] See A. Borrmann *et al.*, "*The Significance . . .*", *op. cit.* for the similar solution. It is important to understand that the GSP provides only an additional incentive to promote industrial exports from developing countries and it does not make sense if a "specific estimate" is computed based on the elasticity times preferential margin without any regard to real economic factors affecting the industrial exports. In addition, although specific estimates are sensitive to elasticity figures, elasticity figures are seldom well founded in the studies of the elasticity approach.

reclassified product groups, the 1976 and 1983 classification was adjusted to that of 1985 using the MOF data reported in CCCN 7-digits. This adjustment of reclassification incurred a formidable job, but was indispensable for the present study. Since these reclassified product groups often represent sensitive products with increasing imports, they should be included so long as changes in classification can be properly adjusted.

The 15 beneficiaries are selected mainly in the order of the total amount of their industrial exports to Japan in 1985; Republic of Korea, Taiwan Province of China, China, Brazil, Singapore, Thailand, Philippines, Mexico, Malaysia, Hong Kong, Indonesia, India, Pakistan, Bangladesh and United Republic of Tanzania, the last two representing least developed country beneficiaries. Altogether they represent more than 82 per cent of Japan's imports from all developed countries in 1985.

Table 2 summarizes the degree of restrictive implementation of the Japanese scheme by industry in the three years. The number of product groups under restrictive implementation (selected products, prior allotment and daily control, global and maximum country amount) is greater in such industries as chemicals (industry code No. 2), leather (4), wood products (5), textiles and clothing (7), footwear (8) and non-ferrous metals (12). Developing countries tend to have a comparative advantage in those industries and have achieved big shares in the Japanese market. It should be noted, however, that many product groups under generous implementation (non-selected products, monthly control, and flexible administration of ceiling and maximum country amount) also include those industries.

The last rows of Table 2 give summary information of the GSP implementation in individual years. A clear tendency is not revealed from the changes over-time in the figure of Table 1 because the total number of product groups increased as mentioned above. Figures in Table 2, with the total number kept constant by adjusting the classification of 1976 and 1983 to that of 1985, reveal a clear tendency as follows: firstly, product groups under monthly control decreased in number while those under daily control and prior allotment increased. Secondly, product groups subject to flexible administration decreased in category A, while those of categories C and D increased. This means that the waivers in invoking global ceilings decreased in number. This trend is especially clear in such industries as textiles (7), chemicals (2) and iron and steel (11).[9]

The analysis of the data base is simple and straightforward. Both application ratio and market shares are calculated for individual exporting countries (i), for individual product groups (j), and for individual years ($t=1$, 2, and 3 for 1976, 1983, and 1985 respectively) as follows:

Application ratio: $$U_{ij}(t)=\frac{MG_{ij}(t)}{M_{ij}(t)}$$

Market share: $$S_{ij}(t)=\frac{M_{ij}(t)}{M_{wj}(t)}$$

Import value index: $$R_{ij}(t)=\frac{M_{ij}(t+1)}{M_{ij}(t)}$$

[9] Many chemical products other than petro-chemicals are mostly supplied by small and medium-scale firms using both domestic and imported agricultural and mineral materials. They have been handicapped by high labour cost, increasing cost of polution control and high material cost and their competitiveness has been eroded against Asian developing countries. See I. Yamazawa, *ibid.* for further details.

TABLE 2. ADMINISTRATION OF JAPAN'S GSP BY INDUSTRY: 1976
(unit: number of product groups)

Industry (BTN chapters)	Total no.[b]	Selected products	Administration system			Flexibility of administration[a]			
			Monthly control	Daily control	Prior allot.	A	B	C	D
1. Mineral products (BTN 25–27)	3	0	3	0	0	2	0	1	0
2. Chemicals (28–38)	33	5	30	3	0	23	3	2	5
3. Rubber/plastic (39–40)	4	0	4	0	0	3	0	1	0
4. Skins/leather (41–43)	14	8	11	3	0	5	0	1	8
5. Wood products (44–46)	17	3	15	2	0	3	4	9	1
6. Paper/paper products (47–49)	3	0	3	0	0	3	0	0	0
7. Textiles/clothing (50–63)	50	20	28	14	8	20	10	15	5
8. Footwear/hats (64–67)	11	4	5	6	0	2	1	0	8
9. Cement/glass (68–70)	5	0	4	1	0	3	0	0	2
10. Precious stones/metals (71–72)	6	0	5	1	0	0	1	1	4
11. Iron/steel (73)	12	0	11	1	0	6	0	2	4
12. Non-ferrous metals (74–83)	20	2	17	3	0	13	2	4	1
13. Industrial/electric machinery (84–85)	10	0	10	0	0	8	0	2	0
14. Transport machinery (86–89)	4	0	4	0	0	4	0	0	0
15. Optical/clocks (90–92)	3	0	3	0	0	3	0	0	0
16. Arms (93)	1	0	1	0	0	1	0	0	0
17. Furniture (94–97)	8	2	6	2	0	0	1	3	4
18. Miscellaneous (98)	1	0	1	0	0	1	0	0	0
All industries	205	44	161	36	8	100	22	41	42

Source: Compiled after reclassification from MOF, *Tariff Weekly*, early May issues for individual years.

[a] A: Both global ceiling and maximum country amount are waived.
B: Only global ceiling is waived.
C: Only maximum country amount is waived.
D: Both global ceiling and maximum country amount are effected.

[b] Figures for FY 1976 and 1983 differ from those of Table 1 because their product grouping was adjusted to that of 1985.

TABLE 2. (Sheet 2: for 1983)

Industry (BTN chapters)	Total no.[b]	Selected products	Administration system			Flexibility of administration[a]			
			Monthly control	Daily control	Prior allot.	A	B	C	D
1. Mineral products (BTN 25–27)	3	0	3	0	0	3	0	0	0
2. Chemicals (28–38)	33	7	24	8	1	17	3	7	6
3. Rubber/plastic (39–40)	4	0	4	0	0	2	1	0	1
4. Skins/leather (41–43)	14	8	9	4	1	3	1	1	9
5. Wood products (44–46)	17	3	14	3	0	6	3	3	5
6. Paper/paper products (47–49)	3	0	3	0	0	3	0	0	0
7. Textiles/ clothing (50–63)	50	20	25	13	12	17	6	13	14
8. Footwear/hats (64–67)	11	4	6	4	1	5	1	1	4
9. Cement/glass (68–70)	5	0	4	1	0	4	0	0	1
10. Precious stones/metals (71–72)	6	0	5	1	0	2	0	1	3
11. Iron/steel (73)	12	0	7	3	2	6	0	6	0
12. Non-ferrous metals (74–83)	20	3	17	2	1	11	2	5	2
13. Industrial/electric machinery (84–85)	10	0	10	0	0	8	0	2	0
14. Transport machinery (86–89)	4	0	4	0	0	4	0	0	0
15. Optical/clocks (90–92)	3	0	3	0	0	3	0	0	0
16. Arms (93)	1	0	1	0	0	1	0	0	0
17. Furniture (94–97)	8	0	7	1	0	2	2	2	2
18. Miscellaneous (98)	1	0	1	0	0	1	0	0	0
All industries	205	45	147	40	18	98	19	41	47

[a] *Ibid.*
[b] *Ibid.*

TABLE 2.[7] (Sheet 3: for 1985)

Industry (BTN chapters)	Total no.[b]	Selected products	Administration system			Flexibility of administration[a]			
			Monthly control	Daily control	Prior allot.	A	B	C	D
1. Mineral products (BTN 25–27)	3	0	3	0	0	3	0	0	0
2. Chemicals (28–38)	33	7	24	8	1	15	4	8	6
3. Rubber/plastic (39–40)	4	0	4	0	0	2	1	0	1
4. Skins/leather (41–43)	14	8	8	5	1	3	1	1	9
5. Wood products (44–46)	17	3	12	5	0	5	4	4	4
6. Paper/paper products (47–49)	3	0	3	0	0	3	0	0	0
7. Textiles/clothing (50–63)	50	17	25	14	11	15	6	15	14
8. Footwear/hats (64–67)	11	3	6	4	1	5	1	1	4
9. Cement/glass (68–70)	5	0	4	1	0	4	0	0	1
10. Precious stones/metals (71–72)	6	0	4	2	0	2	0	1	3
11. Iron/steel (73)	12	0	7	2	3	2	1	9	0
12. Non-ferrous metals (74–83)	20	2	15	4	1	12	1	4	3
13. Industrial/electric machinery (84–85)	10	0	10	0	0	10	0	0	0
14. Transport machinery (86–89)	4	0	4	0	0	4	0	0	0
15. Optical/clocks (90–92)	3	0	3	0	0	3	0	0	0
16. Arms (93)	1	0	1	0	0	1	0	0	0
17. Furniture (94–97)	8	1	7	1	0	1	2	3	2
18. Miscellaneous (98)	1	0	1	0	0	1	0	0	0
All industries	205	41	141	46	18	91	21	46	47

[a] *Ibid.*
[b] *Ibid.*

Where $MG_{ij}(t)$ and $M_{ij}(t)$ represent GSP imports, general (dutiable) imports of product j from country i and $M_{wj}(t)$ total imports of Japan of the product group j respectively in the year t.

The application ratio of a product group for a country is the percentage of total imports of that product from that country to which the preferential treatment is applied within the fiscal year. This ratio measures the degree of restrictive implementation in respect of the product group concerned for that exporting country. It is near 100 per cent if its ceiling quota is waived but represents a small percentage if its ceiling is restrictively administered and the product continues to be imported without GSP benefit. Because there is no differential treatment among individual developing countries under the Japanese scheme, there should not be any systematic difference in individual country application within the same product group, unless a country's exports hit the maximum country amount and its exports continue without GSP benefit, thereby lowering its application ratio.

Market shares of an individual country represent the competitiveness of the country's products in the Japanese market. It is observed that they are relatively free from yearly changes since importers do not change their import supply sources in the case of products which have been imported for some years and where good customer relations have been established.[10] The import value index gives additional information on the increase in imports from developing groups. The task at hand is to find out any association of market shares and high import growth with different forms of administration of preferential imports.

III. *Trade Effects of the Japanese Scheme*

Steady increase of imports from developing countries

Japan's manufactured imports from developing countries, mainly of labour-intensive products, started to increase in the late 1960s. The underlying force was the combination of increased labour costs in Japan with the catching-up in industrialization in Asian developing countries, which has been accelerated by the appreciation of the yen since the early 1970s. Manufactured imports by Japan from developing countries are differentiated from those from developed countries, even within the same product groups, and the two sources do not compete directly with each other. Developing country products have gradually been substituted for domestic products of low price and low quality due to the increasing cost difference and expanding supply capacities of developing countries. It appears, therefore, that there has been observed trade creation but not much trade diversion.

The GSP scheme has only added to these underlying forces of increasing industrial imports from developing countries. Since import tariffs and their GSP margins are 5 to 10 per cent of import prices for many industrial products and are, moreover, small relative to cost differential at home and abroad, the GSP margin provides only an additional incentive to import. Indeed, there is an import rush of quite a few products for the first few days of April (the beginning of the Japanese fiscal year) before imports reach their ceiling and GSP benefit is suspended. But this merely reflects tariff-saving by importers and imports

[10] Based on my case studies of selected industries. See I. Yamazawa, "*Impact of the Generalized . . .*," *op. cit.*

continue after the GSP suspension in many products. Thus importers do not increase imports for the sake of GSP benefit unless they expect an end in supply. Furthermore, Japanese importers insist on the reliability of their supply sources (product quality and punctual delivery) and they do not change their sources only for the sake of small price changes.[11]

Table 3 shows market shares (S_{ij}), import value index (R_{ij}) and GSP application (U_{ij}) for the developing countries as a whole classified by industry. Combined shares of all developing country products in the Japanese import market differ greatly between industries. They exceeded 60 per cent for such industries as (1), (5), (7), (8), (10), (11), and (17) (all being industry code numbers in Table 3) and 40 per cent for industries (4) and (12). On the contrary they were minor for industries (6), (13) to (16). By and large there can be observed a parallel difference in import value indices between 1976 and 1985 from world total and from all developing countries. Especially in industries (1), (2), (3), (11), and (17), high growth of total imports from the world was accompanied by a much higher import growth from developing countries, resulting in a rapid increase in developing country shares. Can they be attributed to the GSP?[12]

Between 1976 and 1985, there were other factors which affected Japanese imports from developing countries, such as the growth of GDP, the appreciation of the yen (especially in 1977–78 and the latter half of FY 1985) and the advanced implementation of the Tokyo Round tariff reductions.

The major tariff change on industrial products in Japan during the past decade was the across-the-board reduction under the Tokyo Round. The magnitude of reduction was greater for higher tariffs according to the harmonization formula, 40 per cent for 11∼15 per cent tariff group (which occupied 25 per cent of total imports) and 30 per cent for 6∼10 per cent tariff group (occupied 45 per cent). Forty-five per cent of them had been reduced in 1972 in advance of the conclusion of the Tokyo round, the actual reduction for the recent decade was the rest, namely 3∼4 percentage points on average. This may be regarded as the erosion of GSP margin under the Tokyo Round. On the other hand, the present tariff structure consists of 35 per cent for 0∼5 per cent on the average and less than 3 per cent for selected products. Tariff changes of this magnitude, whether of GSP margin or its erosion, could not have affected import prices and import volume significantly. We have observed the appreciation of the yen and changes in cost condition of much greater magnitude for the past decade. Therefore, neither changes in GSP margin nor their difference between product groups are taken explicitly into consideration in our analysis.

Therefore, the first two of the three factors mentioned above tended to have a neutral effect on market shares, while the last factor was more noticeable in machinery and other less labour-intensive products and would have affected developing countries adversely. It is, after all, the increasing cost difference and expanded supply capacity of developing countries that have steadily increased the developing country share in the Japanese market.

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[11] Based on my case studies of selected industries. See I. Yamazawa, "*Impact . . .*," *op. cit.*

[12] Negative import growth of the industry (10) was due to an abnormally big import of a certain product (product group No. 142, diamonds) in 1976 and if this product is excluded, the import growth from both world and all developing countries will be 190.6 and 217.4 per cent respectively.

TABLE 3. THREE RATIOS BY INDUSTRY
(unit: per cent and index number with the base year 1976)

	Combined shares of developing countries			Import value index 85/76		Utilization ratio by all developing countries		
	1976	1983	1985	World total	Developing countries total	1976	1983	1985
1. Mineral products (BTN 25–27)	25.8	81.1	79.8	290.6	898.9	70.4	99.6	99.0
2. Chemicals (28–38)	10.3	15.1	17.4	283.5	477.6	94.0	90.7	90.3
3. Rubber/plastic (39–40)	14.8	18.3	26.1	334.5	590.9	74.2	80.3	73.1
4. Skins/leather (41–43)	40.6	44.5	46.5	274.6	314.6	59.4	24.7	25.8
5. Wood products (44–46)	71.8	81.9	83.2	298.2	345.5	61.9	61.1	59.9
6. Paper/paper products (47–49)	3.8	5.7	3.7	376.3	359.5	90.8	93.2	91.3
7. Textiles/clothing (50–63)	60.9	68.4	70.5	240.4	278.3	14.5	13.8	13.8
8. Footwear/hats (64–67)	75.4	80.4	79.2	310.8	351.4	12.7	13.7	16.7
9. Cement/glass (68–70)	23.3	19.7	21.9	289.9	272.4	95.0	90.0	89.5
10. Precious stones/metals (71–72)	55.6	68.7	65.9	78.5	93.0	49.9	54.7	60.9
11. Iron/steel (73)	27.2	66.8	62.1	421.7	963.0	69.5	87.2	80.1
12. Non-ferrous metals (74–84)	41.5	49.0	42.3	307.3	313.3	33.8	27.4	37.4
13. Industrial/electric machinery (84–85)	16.6	12.1	12.7	193.2	148.1	72.4	86.5	78.8
14. Transport machinery (86–89)	2.3	0.8	1.1	217.2	104.5	91.7	90.6	85.4
15. Optical/clocks (90–92)	14.2	6.3	9.7	223.3	152.6	80.9	90.0	94.7
16. Arms (93)	6.0	0.02	0.06	1,034.3	3.5	19.7	85.7	57.5
17. Furniture (94–97)	39.6	62.5	59.4	312.4	489.5	4.0	70.2	73.1
18. Miscellaneous (98)	19.7	22.1	27.7	122.5	169.5	93.2	80.0	75.0
19. All industries	25.8	31.1	31.1	248.6	300.0	48.8	55.2	54.3

Source: Computed from MOF data base (see footnote 10).

Association between GSP application and market shares

The Japanese scheme has been adjusted to meet these rising imports. The comparison of market shares and application ratio in Table 3 (both for all developing countries combined) shows a negative association between the two ratios at the industry level. That is, the larger market share the developing country products have, namely the more competitive they are in the Japanese market, the more restrictively the scheme has been implemented. This negative association is more clearly shown at the individual product group level. Table 4 summarizes the distribution of 205 product groups among five types of combination of market shares and application ratios classified by major industry groups and flexibility in administration. The combination of large market shares with low application (Su) is dominant for product groups with global ceiling and/or maximum country amounts affected (B+C+D categories in Table 2). It is especially the case for textiles, chemical and wood products.

On the contrary, the combination of small market sharers and high application (sU) is dominant for product groups with both ceiling and maximum amount waived (category A in Table 2). It is especially the case for all industry groups other than wood products and leather. It implies that product groups of minor shares are under flexible ceiling administration and enjoy high GSP application. A closer check of the SU combination (larger

TABLE 4. ASSOCIATION BETWEEN GSP APPLICATION AND MARKET SHARES
(unit: number of products)

Industry groups	Flexibility in administation and combination										Total
	Ceiling/max amount effected (B+C+D of Table 2)					Ceiling/max amount waived (A of Table 2)					
	su [a]	sU	Su	SU	Others	su	sU	Su	SU	Others	
Chemicals (2+3+6)	1	2	7	4	6	1	16(8) [b]	0	1	2	40
Wood prod. (5+17)	0	1	8	4	6	0	1(0)	0	5	0	25
Leather (4+8+8)	2	5	5	1	4	0	2(1)	1	5	1	26
Textile (7)	2	4	24	2	3	1	8(6)	0	3	3	50
Mineral prod. (1+9+10)	2	0	0	0	3	1	5(1)	0	3	0	14
Metal (11+12)	2	3	1	7	5	0	9(7)	0	5	0	32
Machinery (13~16)	0	0	0	0	0	2	11(1)	0	3	2	18
All industries	9	15	45	18	27	5	52	1	24	8	205

Source: Compiled from market shares (of all developing countries) and application ratios of 205 commodity products in 1985.

[a] Combinations are defined as follows:
- su: small share (less than 40 per cent) and low application (less than 40 per cent).
- sU: small share and high application (more than 60 per cent).
- Su: large share (more than 60 per cent) and low application.
- SU: large share and high utilization.

[b] Numbers in parentheses show those of product groups whose import value indices exceed the average between 1976 and 1985.

market shares and high utilization) shows that many speciality products of developing countries (such as tropical products and resource goods) belong to this combination. Since they do not compete with Japanese products, they are not strictly restricted to the GSP benefit, although they have large shares. It does not contradict with our finding of the negative association of the two ratios for other products.

Furthermore, it should be noted that the import value indices of those products tended to exceed the average between 1976 and 1985 (see footnote b in Table 4) in such industries as textiles, metal and chemical, in which developing countries have a potential comparative advantage. Import growth is also affected by factors other than GSP. Machinery imports did not increase, even in the sU category, because of the lack of competitiveness of developing countries.

Market share changes between individual developing countries

The discussion so far has centred on the changes in the combined share of all developing countries. But how have individual country shares been affected by the administration of the GSP scheme? Their export performance has no doubt been affected by both real economic and policy factors. The real economic factors include the development of industrial capacities, changes in relative wage rates and the exchange rate alignment in recent years. The policy factors include Japan's provision of GSP treatment to China, special GSP treatment for least-developed countries, and the restrictive administration of the scheme in respect to the major exporting countries.

Japan's imports have not started to increase uniformly from all beneficiary countries. The start came firstly from the Republic of Korea and Taiwan, which together with their geographical and cultural proximity as well as their supply capacity, have acquired dominant shares in the Japanese market. However, since the late 1970s when labour costs increased in these Asian NICs and their supply price tended to increase, Japanese importers shifted gradually to cheaper sources such as China, ASEAN (except Singapore) and South Asian countries. The shift to China was further enhanced by the granting of beneficiary status to this country under the scheme in April 1980. Imports from developed countries, on the other hand, increased by lesser amounts only to the extent of Japan's income growth and MFN tariff reduction, and this discrepancy resulted in an increase in developing countries' market share. The rapid appreciation of the yen since the middle of FY 1985 has tended to encourage Japan's imports from Asian developing countries whose exchange rates have been pegged to the United States dollar. Indonesia, China and some Latin American countries have depreciated their currencies against the United States dollar, thus strengthening their international competitiveness against other developing countries.

Table 5 summarizes Japan's GSP and general imports of 205 industrial products from 15 beneficiaries in the order of their total import values. Bangladesh and Tanzania are included to represent the group of least-developed countries (LDC). The 15 beneficiaries cover 82 per cent of Japan's total imports of industrial products under the GSP scheme. Other major exporters of Japan (more than 100 million dollars) are Saudi Arabia, Spain, Venezuela, Peru, Chile and Argentina. Spain was graduated from Japan's GSP in 1986 when that country joined the EEC. The other countries specialize in a few such products as petro-chemicals, unwrought aluminum, unwrought copper and unwrought zinc and the 15 beneficiaries sample is very representative of industrial exporters to Japan among devel-

TABLE 5. JAPAN'S GSP IMPORTS OF INDUSTRIAL PRODUCTS BY MAJOR BENEFICIARIES
(unit: million US dollars)

Beneficiaries	GSP imports			General imports		
	1976	1983	1985	1976	1983	1985
1. Korea, Rep. of	428	1,069	1,120 (261.4)	915	1,700	1,961 (214.2)
2. Taiwan Province of China	264	814	980 (371.2)	505	1,301	1,557 (308.1)
3. China	—	328	405	—	804	1,101
4. Brazil	23	323	277 (1,204.3)	52	507	439 (844.0)
5. Singapore	91	189	244 (268.1)	115	215	291 (253.0)
6. Thailand	32	89	131 (409.3)	54	127	158 (292.5)
7. Philippines	31	113	125 (403.2)	47	205	268 (570.2)
8. Mexico	14	89	112 (800.0)	31	173	158 (509.6)
9. Malaysia	52	99	106 (158.2)	67	124	144 (214.9)
10. Hong Kong	44	96	99 (223.7)	191	387	432 (226.1)
11. Indonesia	8	39	98 (1,167.8)	17	225	301 (1,770.5)
12. India	110	46	40 (36.0)	136	71	85 (62.4)
13. Pakistan	11	17	20 (184.4)	12	18	25 (200.0)
14. Bangladesh	1.2	3.1	11.4 (950.0)	1.7	5.3	12.4 (723.5)
15. Tanzania, United Rep.	0.08	1.81	2.10 (2,697.4)	0.73	1.91	2.14 (292.6)
16. Developing countries' total	1,384	4,327	4,617 (333.2)	2,831	7,829	8,495 (300.0)
17. Rest of the world (developed countries)	0	0	0	8,130	17,328	18,758 (230.7)
18. Rep. of Korea and Taiwan Province of China	692	1,883	2,100 (303.5)	1,420	3,001	3,517 (247.7)
19. Minor beneficiaries (other than Rep. of Korea, Taiwan Province of China and China)	692	2,116	2,112 (305.2)	1,411	4,024	3,877 (274.8)
20. Beneficiaries other than the 15 countries above: 16−(1~15)	274	1,011	846 (308.8)	686	1,965	1,560 (227.4)
21. World total	1,384	4,327	4,617 (333.2)	10,961	25,157	27,252 (248.6)

Source: Compiled from the MOF data on the GSP imports for 1976, 1983 and 1985.

1 Countries are ranked in the order of GSP imports in 1985. Bangladesh and the United Republic of Tanzania are included to represent beneficiaries of the Special Treatment for Least Developed Countries. Imports from the 15 countries combined cover 82 per cent of Japan's imports of industrial products from all beneficiaries of its GSP.

2 Figures in parentheses for 1985 are import value indexes between 1976 and 1985.

3 Developing countries' total is the total import from all beneficiaries.

4 "Rest of the world" is non-beneficiary countries of Japan's GSP, consisting mainly of developed countries.

5 General imports include imports both with and without GSP.

oping countries.

Exports of agricultural products from developing countries amounted to 21 per cent of total imports under the Japanese GSP in 1985 (measured in terms of values of general imports). However, they reached 53 per cent for Malaysia (palm-oil) and 19 per cent for Thailand (preserved marine products), while they accounted for no more than 10 per cent for other countries.

Table 6 shows the application ratios and market shares computed from Table 5. Table 7 shows similar figures for textiles under the most restrictive administration of the scheme. Application ratios are by and large stable over time but differ greatly among countries. In 1985, they are over 90 per cent for Tanzania and Bangladesh, 70~80 per cent for Singapore, Thailand, Malaysia, Pakistan and Mexico, but as low as 45~60 per cent for Korea, Taiwan, Philippines, India, Hong Kong, Indonesia and China. Application ratios for textiles alone are equally over 90 per cent for the first two countries but much lower for other countries,

TABLE 6. GSP APPLICATION AND MARKET SHARES FOR ALL INDUSTRIAL PRODUCTS BY BENEFICIARY
(unit: per cent)

	Application ratios			Market shares		
	1976	1983	1985	1976	1983	1985
1. Korea, Rep. of	46.6	62.8	57.0	8.3	6.7	7.1
2. Taiwan Province of China	52.3	62.6	62.9	4.6	5.1	5.7
3. China	—	40.7	36.8	0	3.1	4.0
4. Brazil	44.4	63.7	63.0	0.4	2.0	1.6
5. Singapore	78.2	87.9	83.8	1.0	0.8	1.0
6. Thailand	59.2	70.2	82.2	0.4	0.5	0.5
7. Philippines	65.9	55.1	46.6	0.4	0.8	0.9
8. Mexico	46.2	51.4	70.8	0.2	0.6	0.5
9. Malaysia	77.6	80.1	73.6	0.6	0.4	0.5
10. Hong Kong	23.0	24.8	22.9	1.7	1.5	1.5
11. Indonesia	49.4	17.4	32.5	0.1	0.8	1.1
12. India	80.8	65.0	46.5	1.2	0.3	0.3
13. Pakistan	87.9	92.2	81.0	0.11	0.07	0.09
14. Bangladesh	70.2	57.4	92.6	0.015	0.021	0.045
15. Tanzania, United Rep.	10.6	94.9	98.3	0.006	0.007	0.007
16. Developing countries total	48.8	55.2	54.3	25.8	31.1	31.1
17. Rest of the world (developed countries)	—	—	—	74.1	68.9	68.9
18. Rep. of Korea and Taiwan Province of China				13.0	12.6	12.8
19. Minor beneficiaries (other than Rep. of Korea, Taiwan Province of China and China)				12.9	15.4	14.3
20. Beneficiaries other than the 15 countries above: 16−(1~15)				6.7	7.8	5.7

Source: Computed from Table 5.

TABLE 7. GSP APPLICATION AND MARKET SHARES FOR TEXTILES BY BENEFICIARY
(unit: per cent)

	Application ratios			Market shares		
	1976	1983	1985	1976	1983	1985
1. Korea, Rep. of	12.6	9.7	10.6	34.2	24.4	25.7
2. Taiwan Province of China	13.7	16.2	16.3	12.4	13.6	12.3
3. China	0	12.1	10.2	0	21.1	23.4
4. Brazil	17.6	40.5	53.4	1.03	0.20	0.32
5. Singapore	1.6	1.6	0.6	0.51	0.05	0.04
6. Thailand	26.2	26.2	40.8	1.7	1.7	1.1
7. Philippines	9.7	8.9	7.8	0.78	0.79	0.37
8. Mexico	58.2	24.6	45.9	0.02	0.02	0.01
9. Malaysia	3.7	59.1	38.2	0.14	0.08	0.11
10. Hong Kong	6.5	1.3	1.0	6.0	3.6	3.4
11. Indonesia	35.3	4.6	4.4	0.01	0.63	0.21
12. India	56.1	59.1	46.0	1.9	1.7	1.7
13. Pakistan	34.4	62.3	37.7	2.8	0.21	0.19
14. Bangladesh	25.5	51.7	91.8	0.05	0.23	0.43
15. Tanzania, United Rep.	65.8	95.6	100.0	neg	0.09	0.07
16. Developing countries total	14.5	13.8	13.8	60.9	68.4	70.5
17. Rest of the world (developed countries)	—	—	—	39.1	31.6	29.5
18. Rep. of Korea and Taiwan Province of China				46.6	38.0	38.0
19. Minor beneficiaries (other than Rep. of Korea, Taiwan Province of China and China)				14.3	10.3	9.1
20. Beneficiaries other than the 15 countries above: 16−(1∼15)				0.6	1.1	1.2

Source: As for Table 5, covering only product groups in the textile industry.

38∼53 per cent for the second group and as low as 10 per cent for Korea, Taiwan and China. Lower application ratios are observed for countries with greater supply capacity, implying more restrictive GSP administration to those countries.

What about market shares of individual countries? For all industrial products, the share of all developing countries increased from 25 per cent in 1976 to 31 per cent in 1985. Three beneficiaries, Korea, China and Taiwan, accounted for 16.8 per cent, almost half alone, increased by 71 per cent for all developing countries and 61.4 per cent for the three beneficiaries, leading to a much greater concentration.

Impact of China's entry

The impact of China's entry (1981) on other exporters is clearly evident in changes in market shares between 1976 and 1983. Official diplomatic relations between China and

Japan have been restored since 1975 but China's trade with Japan remained inactive until 1978. China's total exports to Japan, including products outside the GSP, amounted to 1.4 million dollars, almost equal to Malaysian exports in 1976. But China's exports to Japan increased rapidly after 1978 and its imports value index between 1976 and 1985 was 370.5, almost parallel to the average of all developed countries.

Shares of Korea, Hong Kong, Singapore and Malaysia declined in 1983 but recovered partly in 1985. However, other countries except India and Pakistan (whose shares declined consecutively) increased their shares in spite of China's entry. China's impact was much greater for textiles. China obtained a 20 per cent share in 1983. Korea was most affected with a decrease of 10 per cent in its share followed by developed countries with an 8 per cent share decrease. Minor beneficiaries other than Korea, China and Taiwan, gained shares from 12.9 per cent in 1976 to 15.4 and 14.3 per cent in 1983 and 1985, respectively for all industrial products (Table 6). However, for textiles China acquired such a big share in 1983 and 1985 that the minor beneficiaries saw their shares decline from 14.3 per cent to 10.3 and 9.1 per cent (Table 7). Minor beneficiaries other than those listed (from Brazil to Tanzania, twentieth row in Tables 5~7) showed a parallel performance with the minor beneficiaries total (nineteenth row), but gained shares in textile as well. However, changes in market shares of rival exporters tended to exaggerate China's impact. Upon the admission of China to the scheme, Japan increased global ceiling quotas so that both general and GSP imports from almost all beneficiary countries increased in absolute values.

Import value indices in parentheses in Table 5 shows a much greater growth of industrial exports from Brazil, Mexico, Indonesia, Bangladesh and the Philippines than the average for all developing countries; almost a parallel growth for Taiwan, Thailand and Tanzania, but a much slower growth for Korea, Malaysia, Pakistan and India. Such export growth performance was also affected by other factors but China's impact cannot be neglected. Two Latin American and some ASEAN countries increased their exports in spite of China's impact. Changes in their market shares were the combined effects of both real economic and policy factors. It goes without saying that China's impact had not only resulted from its admission of GSP eligibility but also the opening of trade between that country and Japan.

On the other hand, the poor performance of Malaysia and Pakistan was affected by the exclusion of semi-conductors, yarn and fabrics of jute from the scheme in 1981. The general imports in Table 5 include only industrial products under the GSP, and industrial exports from Malaysia and Pakistan were underestimated because of the exclusion of semi-conductors (since 1984) and cotton yarn and fabric (since 1981) respectively from Japan's GSP. Semi-conductors added another 61 million dollars to Malaysia's exports and cotton yarn and fabrics added 19 million dollars to Pakistan's exports, both in 1983.

Let us investigate the association between the administration of the scheme and industrial export growth by China's rival suppliers to Japan at individual product level. China obtained a more than 20 per cent share in 15 out of 50 textile products in which China had a potential comparative advantage. It was only for seven of these products that the suspension of GSP was effected under the B, C, and D categories, and for other products imports continued with GSP benefit. Table 8 summarizes both GSP and general imports in 1976, 1983, and 1985 for three products selected from the seven products under the restrictive GSP administration. Each of the three products represents a different type of impact of

TABLE 8. MARKET SHARES AND GSP APPLICATION FOR SELECTED PRODUCT GROUPS
(units: million US dollars and per cent)

Men's outerwear	China	NIC 1	NIC 2	NIC 3	ASEAN 1	Suspension of GSP [a]
Market shares						
1976	0	58.8	7.0	15.5	2.8	B, NIC 1(6/16), NIC 2(9/23)
1983	25.3	38.7	6.2	8.2	1.9	D, All (4/3)
1985	31.2	41.7	8.4	4.3	1.0	D, All (4/3)
GSP and general imports						TOT [c]
1976	0	1,964	2,115	808	3	5,962
	0	77,121	9,994	22,171	4,058	[4,183] [d]
		(2.5) [b]	(21.1)	(3.6)	(neg.)	(1.43) [e]
1983	2,302	4,167	1,165	0	0	7,725
	53,738	82,251	13,198	17,393	4,115	[7,279]
	(4.2)	(5.0)	(8.8)	(0)	(0)	(1.06)
1985	1,981	18,409	3,329	0	0	31,095
	117,379	156,609	31,567	16,324	3,825	[12,050]
	(11.7)	(1.6)	(10.5)	(0)	(0)	(2.58)
Import value index						
1985/76	—	203.0	315.8	73.6	94.2	

Handkerchiefs	China	NIC 1	ASEAN 1	Suspension of GSP [a]
Market shares				
1976	0	27.4	0	C, All (1/1)
1983	51.6	17.7	9.6	B, CH (3/2), NIC 1(9/1),
1985	49.4	6.8	5.8	B, CH (7/2) | ASEAN 1(3/1)
GSP and general imports				TOT [c]
1976	1	1,864	0	1,969
	0	2,516	0	[838] [d]
	—	(74.0) [b]		(2.35)
1983	1,223	801	887	2,988
	4,820	1,656	896	[1,304]
	(25.3)	(48.3)	(98.9)	(2.29)
1985	869	571	507	2,405
	4,322	594	507	[2,495]
	(20.1)	(96.1)	(100.0)	(0.96)
Import value index				
1985/76	—	23.6	—	

Bags and sacks	China	ASEAN 1	LDC 1	Other 1	Suspension of GSP [a]
Market shares					
1976	0	64.4	0	6.3	D, All (4/3)
1983	39.8	41.0	6.1	4.8	D, All (6/1)
1985	37.1	41.4	14.8	2.5	D, All (6/1)
GSP and general imports					TOT [c]
1976	0	1,882	0	0	1,959
	0	5,917	0	57	[117] [d]
	0	(31.8) [b]		(0)	(16.74) [e]
1983	4,213	4,888	720	593	10,508
	5,317	5,469	820	637	[413]
	(79.2)	(89.3)	(87.8)	(93.0)	(25.44)
1985	5,891	7,247	2,626	435	17,200
	6,558	7,318	2,626	435	[560]
	(89.8)	(99.0)	(100.0)	(100.0)	(30.71)
Import value index					
1985/76	—	123.6	—	75.2	

Source: Compiled from the MOF data on GSP imports.

[a] B, C, D, represent categories of GSP administration used in Table 2. *Country name* or *All* followed by parentheses indicates the suspension of GSP for a particular country or all beneficiaries and its data (month/day).

[b] Application ratio (per cent).

[c] Total imports from all beneficiaries.

[d] Global ceiling for the product group.

[e] Ratio of total GSP import to global ceiling.

China's admission to Japan's imports.

As to men's outerwear, the Chinese entry reduced shares of NIC 3 and ASEAN 1, while expors of NICs 1 and 2 increased both in shares and in absolute amounts. Its global ceiling quota was enlarged by 50 per cent from 1976 to 1983 and further by 30 per cent in 1985. The GSP administration was strengthened from B to D categories and the GSP eligibility was suspended for all beneficiaries on 3 April in both 1983 and 1985, but the GSP import reached after the suspension of GSP and application ratios were as low as 10–12 per cent at most.

For handkerchiefs, China's entry with a more than 50 per cent share reduced the NIC 1's share but ASEAN 1's share expanded in parallel. All three countries were suspended from the GSP in 1983, even with a big increase in the 100 per cent in contrast with a 20 per cent application for China, implying that China alone continued to export after the suspension of GSP and decreased its application ratio.

In bags and sacks, China had traditional rival exporters, ASEAN 1 and Other 1 (developed country) and a new rival LDC 1. China's entry with 37 per cent reduced the shares of ASEAN 1 and Other 1, while LDC 1's share increased. The absolute amount of exports by traditional suppliers did not decrease, in spite of the new entry of China and LDC 1. LDC 1 enjoyed a 100 per cent GSP benefit under the special programme. The GSP was suspended for all beneficiaries on 1 June in both 1983 and 1985, but it was administered less restrictively under monthly control so that Japan's actual GSP imports greatly exceeded its global ceiling quota and all exporters enjoyed almost 100 per cent GSP benefit.

To sum up, China's entry adversely affected market shares of traditional suppliers to the Japanese market but absolute amounts of the latter's exports were much less affected. The administration of GSP differs between individual products. Although the suspension limited the use of GSP, GSP imports greatly exceed the global ceiling for some products. The impact of GSP administration on export growth has not turned out to be so obvious. It differs between individual products. Export growth from individual suppliers was mainly affected by real economic factors.

The impact of China is attributed not so much to its admission to the GSP scheme since 1981 as to the opening of trade between the two countries since 1978 and China's potential supply capacity. China's entry with a big share inevitably reduced market shares of existing suppliers but some ASEAN and LDC countries expanded their shares in parallel. Divergent application ratios among individual products partly reflect the different degree of restrictive GSP administration, but its impact on import value indices is not obvious from the data. A lower application of an exporter compared to its rivals resulted from the fact that exports continued without GSP benefit. The GSP benefit is not a decisive factor affecting export trade.

Special treatment for the LDCs

On the other hand, the special treatment for the LDCs since 1981, with a 100 per cent preferential margin and no ceiling limitation, seems to have contributed to the industrial export growth from some LDCs. This is evidenced in the high application ratios with their rapid improvement for both Tanzania and Bangladesh in 1983 and 1985, as was most obvious in textiles. Both increased shares steadily in the two years. The import value indices for these two countries also grew faster than for other developing countries (Tables 5–7). The

LDC special treatment certainly encouraged the shift of supply source to these LDCs from other developing countries. However, industrial exports from the two countries are still confined to a limited number of products, mostly processed form of their speciality goods.

Actual import records support the statement above. Rope of flax and ramie (product No. 101) was the largest export from Tanzania (1,798 million dollars in 1983 and 2,040 million dollars in 1985). This product was exported from Thailand, Brazil, Taiwan and Korea, but none was exported from Tanzania in 1976. The latter, however, obtained the second biggest share of 23 per cent in both 1983 and 1985. The export from Thailand (rope of jute) in the same product group was differentiated from Tanzanian products and increased in parallel, accounting for 38 per cent in 1983, while exports of rope of flax and ramie from Brazil and Taiwan stopped in direct competition with Tanzania. The GSP eligibility was suspended for imports of this product (No. 101) from all three exporters, Brazil, Taiwan Province of China and Thailand, on 3 April FY 1976. In 1985, the GSP application of the United Republic of Tanzania was, of course, 100 per cent, while that of Thailand was 35 per cent. It can be inferred that the full GSP benefit encouraged Japanese importers to shift their supply source to Tanzania and had thus initiated a new export trade. Carpet (Nos. 93 and 94) was another major Tanzanian export.

Bangladesh had a greater variety of industrial exports than Tanzania, consisting mainly of yarn and woven fabrics of jute (Nos. 93 and 94), bed linen (No. 121), sacks and bags (No. 122) and goat skins (Nos. 44 and 45). There is evidence that full GSP benefit possibly encourages new exports from this country, as we mentioned in paragraph 46. However, there has been no export expansion from this country in respect to other products, even though full GSP benefit has been provided equally. The existence of potential comparative advantage and supply capacity is the decisive factor in creating new export flows from these countries. It takes some time for Japanese importers to shift import sources from existing suppliers to some LDCs and the GSP benefit provides an important incentive for the shift.

IV. *Effects of A Priori Limitations*

Since the GSP margin provides an incentive to importers, they naturally try to make full use of it. When the total imports of product group from a particular country reach the maximum country amount limitation and the GSP benefit is suspended for further imports, importers have two alternatives; either to continue their imports without the GSP benefit or to switch their sources of supply to other developing countries and continue to import with GSP benefit. Since Japanese importers have a strong preference for a reliable source of supply, it is inferred that they will not change their sources of supply and will continue to import from the same source without the GSP benefit for the first year or two, but that in the long run they will switch to other sources if they foresee that the GSP suspension will continue in subsequent years. So long as the growth of import of a particular product continues from a particular source, it seems quite probable that the GSP suspension will be repeated in subsequent years and that successive suspension will limit the market share of the beneficiary country concerned. Thus it can be hypothesized that the market share of major exporters tends to be replaced by minor exporters if the suspension of the GSP eligibility continues. This hypothesis will be tested at the individual product level.

Suspension of the GSP eligibility for major suppliers

Table 9 summarizes the Japanese administration of GSP for individual products. As mentioned earlier, the A category (subject to flexible administration) decreased while the C and D categories (subject to stricter administration) increased from 1976 to 1985. A closer look at the category change reveals that the increase occurred in 97 product groups, 61 of which changed either from A to C and D, or from B and C to D. Forty product was disaggregated as mentioned before. This justifies our efforts to reclassify the product grouping in FY 1976 and FY 1983 in order to be adjusted to that of FY 1985 and not to exclude product groups whose classification changed between the three years.

However, counting the number of shifts among categories tends to exaggerate the increased restrictiveness of the GSP administration. Not all products for which global ceilings and maximum country amounts were applied were suspended in reality from GSP eligibility (see Tables 9a and 9b). A third of B+C+D categories were not suspended (B3+C3+D4) and were under *de facto* flexible administration (A category) in 1985. For C category products, 60 per cent were not suspended. Furthermore, 20 out of 37 D category (excluding products not suspended at all) were suspended only for global ceiling, which was merely as restrictive as under the C category, and 6 were suspended only for maximum country amount (*de facto* B category), and the rest, only 11 products, were suspended both for global ceilings and maximum country amounts.

When we compare the suspension of GSP eligibility between 1983 and 1985 for individual

TABLE 9. ADMINISTRATION OF CEILING AND SUSPENSION FROM GSP ELIGIBILITY
(unit: number of product groups)

(a) Administration of global ceiling/ maximum country amount:	1976	1983	1985
A. Both global ceiling and maximum country amount waived	101	98	91
B. Only maximum country amount affected	20	19	21
C. Only global ceiling affected	40	41	46
D. Both global ceiling and maximum country amount affected	40	47	47
TOTAL	205	205	205

(b) Actual suspension from GSP eligibility:		1976	1983	1985
B1:	One country suspended	4	9	7
B2:	2~4 countries suspended	11	10	11
B3:	No suspension	5	0	3
C1:	All countries suspended	28	19	19
C2:	No suspension	16	22	27
D1:	All countries suspended after 1~4 countries suspended	7	6	11
D2:	Only 1~4 countries suspended	3	11	6
D3:	All countries suspended without any country suspension	27	22	20
D4:	No suspension	3	8	10
	TOTAL	205	205	205

Source: Compiled from MOF, *Tariff Weekly*, early May issues of 1977, 1984, and 1986.

product groups under the B, C, and D categories respectively. It is observed that (i) the same countries and dates of suspension appeared in both 1983 and 1985 for many products and (ii) three exporters, China, Korea and Taiwan, appeared most frequently. Since the global ceiling was waived for a B category product, the total GSP imports from a few major exporters can reach many times the global ceiling. And, indeed, figures in the right column (which is defined as application ratio in UNCTAD studies) indicate ratios as high as 4~10 but those high ratios tended to decrease between 1983 and 1985.

The aforementioned hypothesis of the depressing effect of repeated suspension of major exporter's shares is tested for eight products of category B and three products of category D. For those products major exporters were suspended from the GSP eligibility by maximum country amount during April to June in both years.[13] Did those countries' shares tend to decrease, implying a possible shift of import sources because of the loss of GSP benefit? It turns out that 7 out of 13 recorded declines of their market shares (mostly by less than a quarter of their shares) between 1983 and 1985 and the rest recorded no change.[14] The first group consists mostly of products whose production can be moved easily and the decline in their market share may reflect the shift of import sources. However, it is most obvious that shares of major exporters are always affected significantly by the suspension of GSP benefits.

The suspension for all beneficiaries came at almost the same date in both years for many C category products. Eight out of 20 products were suspended from the GSP eligibility during the first three months. However, there is no obvious tendency towards acceleration or deceleration from the date of suspension. High ratios of 7 to 9 were observed for some products in 1983 but they tended to decrease in 1985.

Findings similar to those for B and C category products are obtained for D category products, that is, all or particular countries were suspended at about the same date in these three years. The ratios of GSP imports to global ceiling quotas have tended to decrease for many products but were found to be still very high for some products. Very high ratios imply a loophole in the quota administration but the decrease resulted mainly from the across-the-board increase in global ceilings in 1984.

Are modified maximum country amounts effective?

On the other hand, for D category products, the combination of all beneficiary suspension with particular country suspension was effected by the modification of the GSP administration enacted in FY 1984. The maximum country amount was changed from a half to a third of the global ceiling. Thus, theoretically speaking, this should leave room for a third or other beneficiaries, even after two major suppliers have reached their maximum country amounts. Since the global ceilings themselves were raised by 50 per cent on the average, the maximum country amount was maintained at the previous year's level for the major suppliers. On the other hand, others, most possibly ASEAN countries, could have increased

[13] China appeared six times, Taiwan Province of China three times, the Republic of Korea twice and Hong Kong and India once each, making altogether 13 for 11 products. Two countries were suspended in the case of two products.

[14] The 7 products are raw fur skins of mink (the country suspended was China and the decline in its market share was 26.1~18.4 per cent), woollen yarn (Korea, 67.8~60.7 per cent), carpet (China 83.1~67.9 per cent), brushes (China, 22.4~19.9 per cent and Taiwan, 22.7~19.8 per cent), and goat skins (India, 67.9~60.2 per cent).

their shares owing to the expanded global ceiling. Our data for FY 1983 and 1985 allow this possibility to be investigated at the individual product level, allowing two years for switching supply sources.

Has the modified scheme actually restricted the exports from major suppliers? The suspension came earlier and the ratio of GS imports to global ceilings was reduced for nine products in 1985. But only one product chlorides can be regarded as adversely affected by the modification because its global ceiling was expanded by only 38 per cent and its maximum country amount was actually reduced. On the contrary, absolute maximum country amounts were expanded for other products by a more than 50 per cent increase of their global ceiling.

Did the diverting effect of the modified maximum country amount really restrict the use of GSP by major suppliers and delay the suspension for all beneficiaries, thus encouraging both GSP and general imports from minor suppliers? The comparison of the suspension of GSP for D category products between 1983 and 1985 tells us that the GSP suspensions were delayed for nine products, making the diversion possible, while it remained unchanged for 16 products and was even accelerated for 11 products, discouraging minor exporters. The delayed suspension of GSP is observed in the following four situations: (a) while all beneficiaries were suspended for some products in 1983, GSP imports in 1985 continued after two major exporters were suspended (which could not happen in 1983) and the suspension of all beneficiaries came at a later stage in that year; (b) did not occur at all for other products in 1985; (c) a single major exporter was suspended for certain products while suspension for all beneficiaries in 1985 was either delayed, or (d) did not occur.[15]

But did the diversion effect occur actually? Five products deserve close investigation of market share changes, since they were exported by such minor suppliers as ASEAN countries as well as by such major suppliers as Korea, China and Taiwan, thus providing relevant cases for trade diversion between the two groups. In reality, a majors' share was partly replaced by minor's shares for only one product, while for other products majors' shares increased or the all exporters' share remained unchanged. In artificial flowers, for which Hong Kong's dominant share of 66 per cent decreased against an all-round increase in the shares of China, the Philippines and Thailand, as well as another major exporter, Taiwan. Although the administration of maximum country amounts was modified in a complicated manner in 1984, no obvious effect resulted in reality. This implies that the GSP provides only an additional incentive and that major modification of it has changed market shares among exporters only in limited cases.

V. *Implications and Recommendations for Improvement*

All in all, has the GSP contributed to the export growth for developing countries? We have so far observed that *a priori* limitation of GSP for major developing exporters has not tended to decrease their market shares significantly. However, we have also observed, firstly, that a more than average growth of imports was recorded for the product groups in

[15] (a) Artificial flowers, unwrought lead;
(b) Peppermint;
(c) Travel goods, accessories;
(d) Menthol, raw hide, furniture.

which developing countries have minor market shares and both global ceiling and maximum country amounts were waived. Secondly, actual import records show that LDCs could increase their industrial exports under the 100 per cent benefit of GSP. Thirdly, ASEAN's share increased in a wider variety of products, which reflected mainly the expansion of their industrial capacity but could also be assisted by the generous administration of GSP for minor suppliers.

In short, the GSP, if implemented without restrictions, can provide a good incentive for the start of new industrial exports. It goes without saying that the GSP benefit alone provide enough incentive. Yet, if a developing country has a potential comparative advantage in the production and if the product is expected to be sold out in the Japanese market—that is, if the import trade is profitable—the continued GSP margin of about 5 per cent will make a sufficient incentive to start a new trade flow.

This positive encouraging effect on new minor exporters of unrestricted GSP benefit does not contradict the lack of significant effect of restrictions on major exporters. So long as only GSP effect is concerned, the restrictive administration for major suppliers would have decreased their shares. The reality is, however, that their competitiveness has been strengthened enough not to be eroded by the mere loss of GSP benefit. On the other hand, the encouragement effect on minor suppliers of unrestricted GSP benefit remains significant. That is, the graduation of major suppliers from the GSP eligibility will have an asymmetric effect on the two groups. An increase of the minor supplier's share, with an unchanged major supplier's share, inevitably reduces the market share of the remaining non-beneficiary developed country exporters. But the non-beneficiaries' share tended to decrease because of real economic factors, so that the trade diversion will not cause serious concern.

In spite of an insignificant trade diverting effect of the restrictive administration of the scheme on major established suppliers, the preferential treatment did have a positive and encouraging effect on new, minor exporters having a potential comparative advantage and being assured of continued full GSP benefit. However, the present GSP scheme of Japan has been administered in a complicated manner primarily out of fear of increased competition between domestic producers and major exporters, but with incidental adverse effects on minor exporters as well. The present analysis leads to the following suggestions for improvement of the Japanese scheme. A fundamental improvement can be made by the simplification of its administration, by abolishing all quota restrictions, exceptions and less than duty-free treatment on selected products. The scheme will be implemented more easily if the major established exporters are graduated from the scheme. A compromise improvement is the partial introduction of graduation; waive global ceiling for all products while continuing maximum country amounts limitations in order to encourage industrial exports from more developing countries.

HITOTSUBASHI UNIVERSITY